



Statement before the House Committee on Oversight and Reform
Subcommittee on Government Operations
On “The Future of Federal Work”

The Future of the Federal Workforce

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Chairman Connolly, Ranking Member Hice, and Members of the Committee, thank you for the opportunity to speak today regarding Chairman Connolly's "Strengthening the Office of Personnel Management Act" and the future of the federal workforce. I have worked as a federal employee and with federal employees, both as a Capitol Hill staff member and over nearly five years in the Social Security Administration. I have also conducted research on issues of federal employee compensation.

When we think of the federal government, we often think of material things – tanks and airplanes, roads and bridges, veteran's hospitals and Social Security offices. But behind all of the material things the federal government builds are people, the two million federal employees who day in and day out perform the services and accomplish the tasks that the American people, through their voices in Congress, set for them. And so it is appropriate that Chairman Connolly has made federal personnel policy the subject of this hearing, since a high-performing government is inseparable from a high-performing public sector workforce.

If members of this Committee wish to see what may be the most productive, flexible, and accountable members of the federal workforce, they might simply turn in their chairs and look at the staff members sitting behind them. Every day Congressional staff arrive early and stay late, learn new topics, and take on new responsibilities on the fly and under pressure.

And it is worth understanding how this high-performing segment of the federal workforce comes about. You, as Members of Congress, can hire who you want; you can pay what you want; you can promote who you want; and you can fire who you want. I am not saying that managing the staff of a Congressional office is easy. But it would be significantly harder, and your productivity as Members of Congress would be lower, if

you were hamstrung in having discretion in managing your staff. And yet that is how the typical federal agency operates.

And so, when I read reports such as from the National Academy of Public Administration, which refers to federal employee management as reaching a “crisis stage,” I think it is important to reflect on parts of the federal workforce that function well while also looking at areas where things fall short.

The “Strengthening the Office of Personnel Management Act” would be one of the largest changes to federal employee policy since the passage of the Civil Service Reform Act (CSRA) of 1978. It is worth remembering President Carter’s words at the time: “By itself,” President Carter said, the CSRA “will not ensure improvement in the system. It provides the tools; the will and determination must come from those who manage the Government.”

In this light, it is worth considering what has happened in the over four decades since the CSRA was passed.

Since 1978, total wages and benefits per full-time federal employee have increased by 207 percent above inflation, a more than doubling of real compensation. The average federal employee today receives total pay and benefits exceeding \$169,000. In the private sector, compensation per worker has increased by only 169 percent.

Repeated Congressional Budget Office (CBO) studies have found that federal employees receive average pay and benefits exceeding those paid to similarly educated and experienced private sector employees.¹ Based on the CBO’s figures, I estimate that nearly every federal employee with a high school education or less earns more in combined salary and benefits than they are likely to earn in a private sector job;

¹ The most recent report is Congressional Budget Office. “Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015.” April 25, 2017.

roughly 90 percent of employees with Bachelor's degrees are paid more in the federal government than in private sector jobs; and about 70 percent of federal employees with professional or doctoral degrees receive higher pay and benefits than in the private sector.

Pay and benefits that provide a compensation premium over private sector jobs should enable the federal government to hire and retain the talent needed to fulfil the tasks that you, the Congress, set for them.

And yet the Office of Personnel Management (OPM) is a perennial entrant on the GAO's list of "high-risk" federal agencies, with areas of concern that cross different administrations of different parties. OPM has long expressed concern with its ability to hire and retain employees with skills in STEM and other in-demand fields, including cybersecurity. Higher pay coupled with the inability to attract and retain employees, particularly when extending over long periods of time, point to systematic employee management issues, not failures of any particular OPM leader, staff member, or presidential administration.

To illustrate, I will briefly examine the federal government's Senior Executive Service (SES), which was established in the CSRA of 1978 to create a new tier of high-performing career employee leaders with greater flexibility, greater accountability for results, and greater potential for reward when those results are achieved. In other words, the SES was created precisely to tackle some of the personnel issues the federal workforce continues to face today.

When the SES was established in 1979, there was an emphasis on providing monetary bonuses to the very highest performers, making up the top five percent and top one percent of employees. But by FY2016, eighty-one percent of all SES employees

received a bonus, with annual bonuses averaging about \$13,000. In OPM itself, 100 percent of SES employees received a bonus.²

Worse, OPM data show that SES salaries are essentially uncorrelated with the employee job performance ratings filed by federal managers themselves. In other words, even if we assume that federal managers' performance reports accurately gauge the value of employees' work, better performance doesn't lead to higher pay – even within a segment of the federal workforce where rewarding performance was an explicit goal.

Worse, in some agencies, including OPM itself, SES job performance ratings are *negatively correlated* with salaries, meaning that employees with lower performance ratings tend to earn more than those with higher performance. Overall, SES employees with the highest possible job performance rating in FY2016, which denotes “outstanding” performance, received salaries only one percent higher than SES employees receiving an “unsatisfactory” rating, the lowest rating on a one-to-five scale.

Other data, this time coming from tests of adult verbal and numerical skills, show that that salaries in government are less closely correlated to skills than in private sector jobs. Data from the Organization for Economic Cooperation and Development (OECD)'s Survey of Adult Skills show that, in the U.S., private sector salaries are correlated with employees' reading, writing and mathematical skills, even after controlling for their level of formal educational attainment. Thus, for instance, employees with a Bachelor's degree and strong cognitive skills tended to earn more than similarly-educated employees with weaker verbal and quantitative skills. But in the U.S. public sector, that correlation between skills and salaries is weaker and, in some

² See United States Office of Personnel Management. “Report on Senior Executive Pay and Performance Appraisal Systems, FY 2016.” Released January 2018.

research, non-existent.³ This approach to employee management predictably deters those with the greatest motivation and highest abilities, since they benefit the most under performance pay. In simple terms, unlike the Capitol Hill employees that Members of Congress supervise, pay for performance is not within the general culture of the federal government. If Congress wishes it to be so, it must insist that it take place.

NAPA report and the “Strengthening the Office of Personnel Management Act.”

In March 2021, the National Academy of Public Administration (NAPA) issued a Congressionally-authorized report detailing recommendations for OPM and personnel management throughout the federal government.⁴ These recommendations help form the backbone of Chairman Connolly’s legislation.

The NAPA report highlights longstanding issues with management of the over two million federal employees:

The current federal civil service system is widely recognized as rigid, outdated and in need of major reform. Despite efforts to address these issues, Federal human resource management and supporting systems remain complex, disparate, and difficult to navigate. The need for greater flexibilities to hire (and fire) has led to a proliferation of exceptions from the competitive service and afforded some much-needed flexibilities, but at the same time, engendered fragmentation of the civil service and increased complexities.

³ See Schanzenbach, Max. “Explaining the public-sector pay gap: The role of skill and college major.” *Journal of Human Capital* 9, no. 1 (2015): 1-44.

⁴ National Academy of Public Administration. “Elevating Human Capital: Reframing the U.S. Office of Personnel Management’s Leadership Imperative.” March, 2021.

The NAPA panel of experts makes a variety of recommendations to help bring OPM's management of federal employees into the 21st century.

Many of the NAPA panel's recommendations are sound, but also may come with downsides. For instance, continuity of OPM leadership over time avoids excessive disruption to OPM's staff and services, but it may also lock into place problems that have existed over decades. Similarly, making it easier for federal agencies to hire interns or fellows into permanent positions makes sense; watching an employee at work is the best way to assess their suitability. At the same time, internships may be more accessible to individuals with the family means to support them while working for low pay, which could disadvantage prospective employees with lower incomes. These are not deal-killers in my book, but it is useful to recognize potential downsides prior to legislation being passed.

More controversial are provisions that would make the OPM more independent of the elected presidential administration. Again, there are pros and cons. Independence can increase continuity over different administrations, so that management practices are not radically changed every four years. Making the chief management officer a career employee also contributes to greater expertise and continuity, but means that leadership will be more steeped in the way of doing things that has not always served the federal workforce well. A recent World Bank report on improving public sector productivity stressed that "Political leadership is needed because few, if any, of the innovations are a purely technocratic exercise."⁵ Would making OPM more distant from elected officials help promote progress or lock in the status quo? Again, there are trade-offs to consider.

⁵ Kunicova, Jana. "The five drivers for improving public sector performance: Lessons from the new World Bank Global Report." The World Bank. October 24, 2018.

Likewise, it is not difficult to imagine a semi-independent OPM becoming a “captured regulator” that came to see federal employees rather than Congress or the President as its principal clients. After all, no one would focus as closely on OPM’s activities as the employees it oversees. For instance, a 2018 review found that eight out of nine studies concluded that federal employees received higher combined pay and benefits than comparable private sector employees.⁶ The one exception? “The only study that found compensation of private sector employees exceeded the compensation of federal civilian employees was conducted by the federal agent that was responsible for establishing pay for federal civilian employees.” The President’s Pay Agent report for 2020 concluded that federal salaries are nearly 27 percent lower than those paid for similar jobs in the private sector or state and local government, a result that no other study replicates.⁷ Would a more independent OPM be able to deliver bad news to the federal workforce?

Chairman Connolly’s legislation also would recommit the OPM to furthering the goals of the 1978 Civil Service Reform Act, including “the application of merit system principles to all federal employees.” Again, much of this is admirable. But other precepts might be outdated. For instance, merit system principles state that “Equal pay should be provided for work of equal value...,”⁸ a precept that is embedded in the federal General Schedule pay scale. No one wishes to unnecessarily pay federal employees unequally, in particular based upon factors totally unrelated to work, such as race, gender, or ethnicity. Nevertheless, it is worth bearing in mind that the vast majority of

⁶ Kogut, Carl A., Donna Luse, and Larry Short. “Are Federal Employees Overpaid?” *Academy of Business Research Journal* 3 (2018): 19-28.

⁷ The President’s Pay Agent. “Report on Locality-Based Comparability Payments for the General Schedule. Annual Report of The President’s Pay Agent for Locality Pay In 2021.” Released, December 2020.

⁸ 5 USC § 2301.

the U.S. and world labor market works on a very different principle: that employers pay what they must to attract and retain the talent that they need, but they do not needlessly pay more than that amount. That is, they bear supply and demand in mind while setting employee compensation. And these employers generally do not face the types of personnel management problems that for decades have plagued the federal government.

With those warnings made, I should also state that anyone expecting the Strengthening the Office of Personnel Management Act to produce dramatic changes to the federal workforce, its cost, or effectiveness, positive or negative, is likely to be disappointed. I don't believe this legislation will either fix every problem that OPM faces or create massive new problems.

The NAPA report upon which the Act is based addresses a wide variety of areas, and I will admit that the report's findings are sometimes so couched in the language of management consultants that it is difficult to envision how the words on the page will translate into action. For instance, the NAPA panel recommends that "OPM should develop policy guidance and information sharing practices that focus on strategic human capital management, innovation, and the identification of best practices and lessons learned." It is difficult to tell whether OPM may already be following such practices and, if not, what positive results would follow from adopting them.

In my view, success in improving federal employee management is more likely to flow from tightly-focused efforts in a small number of discrete, high value areas than from broad reforms that attempt to do much but with insufficient specificity. However, highlighting such areas requires understanding some of the difficulties that are inherent to managing the federal employee workforce.

The inherent challenges facing federal employee management

The core difficulty with human resource management in government is that, unlike private sector firms, it often is extremely difficult to measure government employees' productivity. When an organization can easily measure employee productivity, personnel management can be much more flexible and innovative because employee output provides a meaningful benchmark of how well those management techniques are functioning. Managers can easily determine which types of training or technology improve productivity, and they can better design compensation structures to reward individual effort and initiative.

I spent almost five years working at the Social Security Administration, ending as principal deputy commissioner of the agency. And in certain cases, such as processing Social Security claims, managers can track the number and accuracy of employees' work. In those cases, general productivity may be high and policies such as remote work can often work well. However, even within a claims-oriented agency such as SSA, many employees perform tasks that are much more difficult to measure and assess. And in other agencies or departments, productivity is even more difficult to quantify. Given the interconnected nature of federal work, where one employee's output becomes another employee's input, every state of the process must work well.

Moreover, the federal government works within a fairly rigid set of compensation rules. Nearly all federal positions are placed on the federal General Schedule (GS), which attempts to grade the skill requirements of each job make that job comparable to seemingly very different positions conducting different types of work in different agencies of the government. Every GS-9, for instance, across every federal agency or department, is paid about the same, even if their jobs look very different.

In the private sector this doesn't happen, and for good reasons. The Bureau of Labor Statistics, as part of the National Compensation Survey, analyzes the skill requirements of private sector jobs and assigns each job a grade on the federal GS scale. But even within a given GS level, salaries for private sector jobs can vary significantly.⁹ Some of this is because a grade assigned to a job by an outside reviewer may not fully capture what the job required. Accurately measuring the job skill requirements of different positions is challenging.

But another source of variation in pay is simply that some jobs are in greater demand than others and employers offer the salaries necessary to attract employees. The federal government lacks much of this flexibility and so it runs into a surplus of applicants for certain jobs and a shortfall for others. A one-size-fits-all formula for employee compensation almost cannot avoid that problem. Only a relatively small number of agencies, particularly those that must attract financial professionals, are able to work outside of the GS framework. In most cases, the federal government lacks the ability to alter pay in response to supply and demand, something that private firms do every day.

In some respects, progress has been reversed in recent months. The NAPA panel report discusses the need the “need for greater flexibilities” to dismiss poorly-performing federal employees. Likewise, in a 2015 report the GAO noted, “Federal agencies’ ability to address poor performance has been a long-standing issue. Employees and agency leaders share a perception that more needs to be done to address poor performance, as even a small number of poor performers can affect agencies' capacity to meet their missions.”

⁹ See Pierce, Brooks. “Using the National Compensation Survey to predict wage rates.” *Compensation and Working Conditions* 4, no. 4 (1999): 8-16.

In FY 2013, federal agencies dismissed 3,489 employees for performance or a combination of performance and conduct, representing 0.18 percent of the career permanent workforce. However, seventy percent of these dismissal, or 2,442, took place during the probationary period that generally runs through the first year of an employee's tenure. Once beyond the first year of service, the chance of a federal employee being dismissed decline to 0.054 percent. Put another way, a non-probationary federal employee in 2013 had about a one-in-1,800 chance of being dismissed for cause. The federal government does not gather data on rates of employee discharge in the private sector. The existing data from the Bureau of Labor Statistics (BLS) groups discharges together with layoff. However, earlier BLS research found that in the late 20th century a given private sector employee had about a one-in-16 chance of being discharged, which obviously is far higher than for federal employees today.¹⁰

One potential explanation for the federal government's exceptionally low rate of employee discharge for poor performance is that the federal government is exceptionally good at selecting high performing employees in the hiring stage and coaxing poor performers back to better standards once they have been hired. But this supposition flies in the face of the reason hearings such as this one are held, which is that personnel management in the federal government is not held to be excellent. An alternate explanation, which the GAO report supports, is that federal work rules simply make it more costly and time-consuming to dismissing poor performers compared to the "at will" employment that holds through most of the private sector. "Overall, it can take six months to a year (and sometimes significantly longer) to dismiss an employee," the GAO reports.

¹⁰ Rodgers, Robert C., and Jack Stieber. "Employee discharge in the 20th century: a review of the literature." *Monthly Labor Review* 108, no. 9 (1985): 35-41.

In my first position at the Social Security Administration, managing a small office focused on computer simulations of retirement incomes, we had one individual who spent much of the day surfing the internet. This employee had no background in the computer modeling my office conducted, but was likely assigned to us due to their lack of work ethic. My deputy, a very dedicated career employee, spent a great deal of time working with this employee, who was resistant to change. But there was no appetite further up the chain to move toward dismissal, so all I could do was transfer this employee to another location so that the rest of my time – who were everything you could ask for from public servants – would not be confront every day with a person who refused to do their job. That solved one problem, but left me one FTE short to work on the problems to which I was assigned, and left the American taxpayer short at least \$100,000 per year in compensation costs. I did it because I had a job to do other than managing problem employees, and I suspect that many other federal managers follow the same route.

The Trump administration issued Executive Order 13839 that would reduce the time needed to dismiss a poor performer, while not eliminating employees' rights to due process (a right that does not exist for most employees outside of government). Yes, there are poor performers everywhere. But the rest of the economy has ways to address them while, barring truly egregious cases, the federal government largely does not. Executive Order 13839 was repealed early in the Biden administration, returning federal practices to the status quo where dismissals for performance are costly and rare. That does not strike me at the best balance for personnel management.

Ideas to move forward

My advice for future action on federal workforce management is three-fold. First, the federal government should consult with leading private sector entities regarding how they manage their large and diverse workforces. Working only within a public administration box that for decades has not solved the problems facing OPM and the federal workforce imposes a high risk of failure. And that is particularly true as government activities have more closely come to resemble those of high-tech firms. Companies such as Google and Amazon have been touted as applying “scientific” methods to human resource management. What have they found out? How do they operate? What have been the pros and cons of their approaches? Certainly both firms have come in for criticism regarding treatment of employees, but both also have garnered successes. Whatever the lessons, federal policymakers should wish to learn more.

Second, lawmakers should look abroad for lessons. America isn’t the only place in the world with a central government workforce; dozens of other developed countries face much the same challenges as the U.S. federal government but we rarely turn to them for lessons. The Organization for Economic Cooperation and Development tracks personnel management in different developed countries. For instance, in the use of performance-related pay, the U.S. is in the lowest category, with performance pay generally making up a maximum of one to five percent of employees’ total salaries. In Australia, performance pay can make up six to 10 percent of salary and in Canada performance pay can rise to up to 20 percent of salary. In Sweden, performance pay can make up from 21 to 40 percent of total salary.¹¹ This doesn’t mean the U.S. should suddenly up-end its employee compensation practices. But it does say there is likely something to be

¹¹ Source: OECD Strategic Human Resource Management database.

learned from other countries, in particular because Australia, Canada, and Sweden rank higher than the U.S. in the World Bank's ratings of the quality of governance.

Third, Congress should run pilot programs to help inform broader reforms. I am a member of the federally-mandated Financial Oversight and Management Board for Puerto Rico, which is tasked with managing the commonwealth's bankruptcy and improving fiscal responsibility in the island's government. Recently, the Governor of Puerto Rico wished to enact a civil service reform that would both increase public employee pay and while introducing job performance evaluations. The Oversight Board, made up of both Democratic and Republican appointees, opted to authorize a pilot program to assess results before implementing the reforms across the whole of the government workforce. In the federal context, it would be helpful to see a single extremely well-run agency or department before considering reforms for two million or more employees.

In remaining sections, I turn to several discrete questions that policymakers face that involve the federal employee workforce.

Remote work

I have myself worked remotely for the past nine years, telecommuting from Klamath Falls, Oregon to the American Enterprise Institute (AEI) in Washington, D.C. It has worked well for me and, since I remain employed at AEI, presumably for my employer as well. Moreover, as a member of the Financial Oversight and Management Board for Puerto Rico, we have conducted most of our business remotely for the past 18 months. This, too, has functioned reasonably well. And so I am pro-remote work, in the proper circumstances. But the circumstances are important.

The most important, as discussed above, is measuring employee output. In cases where output can easily be measured, the remote work could potentially increase productivity, as well as attracting employees from outside of the Washington, D.C. area. This could potentially lower costs to the federal government as well as attracting a more diverse federal workforce. However, when employee productivity is difficult to measure, remote work could make it even more so, exacerbating the key challenge facing federal managers. So remote workplaces should be expanded where they work well, but not expanded indiscriminately.

The problem is that, in a highly-regimented workplace such as the federal government, remote work may be viewed first and foremost as an employee perk. And it harms morale when some employees are offered a perk and others are not. Thus, with exceptions where an employees' on-site presence is clearly necessary, remote work may be offered in federal agencies on an all-or-nothing basis. Policymakers should think long and hard before doing so.

There are additional questions, such as how remote work would mesh with existing office facilities. How many federal employees would work fully remotely, thus freeing up federal office buildings and allowing employees to locate independently of their agency's formal location? Or would remote work policies continue to require employees to periodically work on-site, which would reduce savings to the federal government on office space?

While the COVID-19 pandemic forced remote work for many employees, including those in the federal government, policymakers – like private sector employers – should carefully consider whether and how remote work should continue.

Federal employee COVID-19 vaccination policies

The federal government currently requires that all federal employees either become vaccinated or file for an exemption. Government-wide, around 92 percent of employees are currently vaccinated. It goes without saying that any government mandate can be controversial.

While I may have “Dr.” as an academic title, I have no special expertise in health fields. However, economists can still bring value to the discussion. Health experts often focus on minimizing the harm caused by a given disease, and that is a worthy goal. But economists focus always and everywhere on trade-offs. In particular, they emphasize the value of pursuing a given course of action until – and only until – the benefits of those actions exceed the costs.

The benefits of vaccination are, or should be, clear. I have had COVID-19, I’ve subsequently been vaccinated, and I will receive a booster as soon as it is available to me. I believe that development of the COVID-19 vaccines was a miracle of the free market system: within months of COVID-19 being discovered multiple pharmaceutical companies had vaccines in the trial stages, and within a year, the vaccine was available to the public. Just as the United States saved millions of innocent lives in World War Two, in the 21st century our scientific and productive power prevented mass tragedy on a global scale. It was not government that invented the vaccines, nor was it the planned economies of China, Russia or elsewhere. It was private firms, funded with investments from millions of Americans through their 401(k)s or pensions and motivated to profit those investors, that saved the world.

But there are also costs to vaccination mandates. America was founded on principles of personal freedom and personal responsibility. At some point, choices are an individual’s to be made and to take responsibility for, even if those would not be my

choices. Mandates come at a cost to personal freedom, and some federal employees will choose not to bear that cost. That could mean losing employees to other industries that do not carry such mandates.

Given the very high current levels of vaccination among federal employees, along with some percentage of individuals who already have contracted COVID-19 and may have equal and longer-lasting protection via natural immunity¹², it may be that the fight to achieve 100 percent vaccination among federal workers is not worth the cost.

Locating federal offices outside of Washington, D.C.

Some have proposed relocating a greater share of federal employees outside of the Washington, D.C. metro area. As with remote work, I am in principle favorable to the idea – under the appropriate circumstances.

Some have proposed relocating federal offices from Washington to cities that have suffered economic downturns. I do not favor such large changes purely for reasons of economic stimulus.

However, I do believe that locating the vast majority of federal employees in the Washington, D.C. area does not always best serve the public. It is indeed useful for agency leadership to be close to Congress and the presidential administration. But there are costs when federal employees become isolated from the citizens and the sectors of the economy they serve.

I write this as someone who resides in the rural West, in Klamath County, Oregon. As late as 1979, Klamath County had a median household income 11 percent higher than Manhattan. Today, median household incomes in Klamath are barely half

¹² See Denise Roland. “Covid-19 Vaccines or Infections: Which Carries the Stronger Immunity?” *The Wall Street Journal*. Nov. 27, 2021.

those of New York City. The biggest blows to my local economy have come through federal environmental regulations: restrictions on logging in the 1980s to help population numbers of the Spotted Owl reduced jobs in wood and paper product industries, while doing little to save the owl. Current restrictions on water use to protect the suckerfish and salmon leave the remaining agricultural producers subject to drought, again with little reported benefit to the wildlife.

Where I live, federal agency decisions are a matter of economic life and death, but local residents feel they are not represented among the federal agency employees who have significant discretion to harm their livelihoods. A person from my area would rarely consider moving to Washington, D.C., which is thousands of miles away, separates them from friends and family, and may force them to live in a location whose general way of life is different from their own. This leaves federal employment more heavily to Easterners, even in agencies that are concerned principally with public lands in the West.

Relocating federal agencies closer to the areas they serve would promote the goal in Chairman Connolly's legislation of achieving "a competent and diverse workforce" that understands the issues facing different areas of the country and the people that federal agencies serve.